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### Niche Products in the Perceived-Healthy Food Market in Mexico

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Retail Foods

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**Report Highlights:**

Mexico has the highest rates of child, adolescent, and adult obesity in the world. The Government of Mexico is developing programs to educate the Mexican population about the consequences of obesity. These health concerns in Mexico present opportunities for U.S. exporters of food perceived as healthy. Certain products are already well established and widely accepted throughout Mexico and there are opportunities for additional healthy foods, particularly for those who are price competitive with more mainstream foods and appeal to a wider and more diverse demographic. There are growing opportunities for small and medium sized producers to tap into niche markets that are still in their early years in Mexico, as trends toward sugar-free and gluten-free spread in the increasingly health-conscious Mexican market.

## **General Information:**

### **The Mexican Market for Healthy Foods**

Mexico has experienced an alarming increase in the rate of obesity in recent years. Among children, obesity rates have increased to approximately one in four, and among teenagers, one in three. This trend continues with age, as approximately 65 percent of the adult population is obese or overweight. Health risks have corresponded with this surge in obesity, as the presence of diseases such as diabetes and celiac disease have risen. According to *The Economist*, a conference held in Mexico City on April 9, 2013 estimated that more than 10 million Mexicans, over a sixth of the adult population, suffer from diabetes, making the rate of diabetes in Mexico the sixth-highest in the world. According to the International Diabetes Federation, the disease kills approximately 70,000 Mexicans a year, making it one of the top two causes of death, alongside heart disease. Celiac disease, which traditionally has plagued the United States and Europe, recently began to emerge in Mexico.

Obesity and its complications is one of Mexico's primary public health problems and a top concern to the Government of Mexico (GOM). Several initiatives have been implemented such as the National Agreement for Healthy Eating (Acuerdo Nacional de Salud Alimentaria), which uses education, marketing, and inter-sectoral support to combat the country-wide problem. In the GOM report summarizing this agreement, the GOM spent an estimated 35 billion pesos for direct and indirect costs of obesity in 2000, and 67 billion pesos in 2008. The GOM estimates that by 2017, the cost of treating obesity-related diseases will reach up to 150 billion pesos.

As the GOM strives to increase awareness regarding the health and financial costs of obesity through marketing and public education, demand for healthier foods in Mexico continues to rise. According to a study conducted by Nielsen Holdings, a global marketing and communications research company, 60 percent of Mexicans are trying to lose weight. Of that 60 percent, 70 percent of Mexicans intend to lose weight by changing their diets. Many are deterred from consuming healthier foods due the higher costs over less-healthy alternative products, so successful penetration of the Mexican healthy food market requires successful marketing as well as competitive pricing

## **Author Defined:**

### ***Health and Wellness Products***

The healthy food market in Mexico is currently dominated by a few companies who are successful due to brand recognition and economies of scale, which allow for relatively lower prices. Smaller corporations often struggle to penetrate the healthy food market as they have lower economies of scale, and the greatest limiting factor to sales is the higher price of foods with added health benefits over their less-healthy alternatives.

The most lucrative better for you (BFY) packaged food products are sugar-free gum, dairy, and

reduced-salt products. In the packaged food sector, sometimes referred to as health and wellness products, sales are dominated by Cadbury Adams Mexico, whose market share is 19 percent. According to a Euromonitor International 2010 report, this company controls the BFY packaged food sector through its sugar-free Trident gum brand. Cadbury Adams Mexico is followed by Danone de México, whose leading reduced fat and sugar-free yogurt brand, Vitalinea, holds 9 percent of the total value sales of the BFY packaged food sector. The cost efficiency and wide distribution channels allow Danone de Mexico. The other companies involved in producing BFY packaged foods have much lower sales than Cadbury Adams Mexico and Danone de México, with Sabritas (a Mexican Frito Lay subsidiary) holding only 6 percent of the BFY sector total sales.

Naturally healthy packaged food similarly is dominated by only a few players. Panificación Bimbo leads the market with 25 percent of total sales, and their domination of the market is projected to increase by 5 percent by 2014, according to the Euromonitor International 2010 report. Panificación Bimbo dominates with its consolidated healthy bread and grain brands, including Bimbo Doble Fibra, Pan Bimbo Multigrano, Oroweat, and Pan Bimbo Integral. Bimbo recently added flaxseed to 300 of its grain products in order to make them more nutritious. Kellogg de México is the second-largest company, selling cereals and cereal bar products that are perceived as a healthy snack and could facilitate digestive health. Kellogg cereal products sales constitute 12 percent of total naturally healthy packaged food market sales. PepsiCo, the parent industry of Pepsi, Frito-Lay, and Tropicana, recently invested 300 million in developing healthier prepared foods.

An article in *El Reforma Newspaper* on April 9, 2013, reported that carbonated soft drinks account for 7 out of 10 drinks sold in Mexico. Per capita, Mexico is the highest consumer of Coca-Cola in the world. Responding to the need for healthier soft drinks and soda products, Coca-Cola de México has made a commitment to providing alternative reduced sugar soda drinks, and ensuring that these drinks are more widely available in supermarkets and convenience stores.

### ***Obesity as a Public Health Concern***

This growing trend toward healthy food began in response to the widespread obesity problems, especially among children, who are likely to develop weight and health issues unless their eating patterns change. In 2010, in an effort to combat this growing problem, the GOM limited access to junk food in schools. Along with the growing obesity problem, a surge of diabetes, as well as hypertension, abnormal lipid profile, coronary heart disease, stroke, osteoarthritis, and several cancers have been recorded in Mexico. According to the Encuesta Nacional de Salud y Nutrición 2006, the combined prevalence of being overweight or obese occurs in approximately 26 percent of children, 31 percent of adolescents, and 70 percent of the population over 18 years old. The study estimates that if trends do not change, by 2016, over 90 percent of the population could be overweight or obese.

The growing rate of obesity in children has led to the onslaught of several chronic diseases which were traditionally only seen in adults. In a study by the Hospital Infantil de México Federico Gómez, of 100 overweight or obese children between 4 and 18 years of age, 16 suffered hypertension, and 50 percent had metabolic syndrome with high levels of triglycerides, cholesterol, and high blood pressure. These children are most likely to remain overweight throughout their lives, so it is projected that the public health services will have to spend between 60.5-79.5 percent of their annual budget to pay for the costs of obesity if eating habits do not change and healthier lifestyles are adopted.

### ***National Agreement for Healthy Eating (Acuerdo Nacional de Salud Alimentaria)***

To respond to this growing national health concern and the threat it presents to the federal budget, the GOM presented a strategy on January 25, 2010 called the National Agreement for Healthy Eating (ANSA). This strategy employs the participation of 15 government agencies, academia, professional groups, society, and industry, to share the responsibility for stopping the growing weight epidemic. The agreement has 10 primary strategies to achieve this goal: promoting physical activity; increasing availability and consumption of plain drinking water; reducing the consumption of fats and sugar in beverages; increasing daily intake of fruits, vegetables, and whole grains; improving food labels to better inform consumers; promoting breastfeeding as the exclusive feeding of newborns under 6 months old; reducing added sugars and sweeteners to food; decreasing daily consumption of saturated fats; informing the public about portion control; and reducing the daily sodium intake.

A primary focus of the agreement is promoting healthy eating habits early in children through the public school system. The agreement outlines a plan of action taken on by the Ministry of Public Education to promote nutrition literacy, ensure daily physical activity, and increase the availability and accessibility of healthy foods in public schools. It is still vital, however, to combine these education efforts with health promotion at home to combat the prevalence of marketing of foods with little nutritional value.

### ***Growth and Trends of the Healthy Food Market***

Healthy food products have benefited in sales, demand, and acceptance due to the alarming obesity problems in Mexico in recent years. A surge in sales of healthy alternatives occurred in 2010, when the federal agreement, ANSA, mandated the presence of healthy foods in public schools. ANSA's commitment to education, improving labeling, and marketing healthy foods, has begun to make Mexicans aware of the long-term health costs associated with overweight and obesity issues.

The greatest limiting factor to increased sales of healthy food is price. According to a Euromonitor International 2010 report, BFY packaged food is generally 10-25 percent more expensive than traditional options. The economic crisis in 2009 negatively impacted most healthy food markets due to reduced consumer spending and disposable income. In the BFY packaged food sector, sales stagnated, as consumers sought out cheaper alternatives. During the financial crisis, only reduced fat powder milk and reduced sugar products experienced an increase in total revenue, by 11 and 9 percent respectively. By 2012, however, economic recovery led to a stabilization of the healthy food market. BFY healthy foods sales are expected to grow by a rate of 5 percent per year, but this will mark a slowdown in the pace of increase of sales due to market maturity. Consumer acceptance of these products is expected to continue growing due to obesity problems, greater levels of nutritional literacy, and brand recognition, but purchases will remain limited by the affordability of healthy products.

During the recent financial crisis, sales of naturally healthy packaged foods increased by 4 percent. This sector, unlike BFY packaged foods, is still in its development stages and is expected to experience massive growth in the near future. Naturally healthy foods are well received by consumers and perceived to be healthy. According to a CNN Expansion report, in 2010 the consumption of juice increased by 67 percent, the purchase of vegetables grew by 26 percent, and purchases of dressings and mayonnaise, which are expected to correlate to greater consumption of fruits and vegetables, jumped significantly. Currently, consumers in Mexico are most likely to purchase products high in fiber with essential grains, followed by yogurts with probiotics, and margarines and oils low in cholesterol. Well established healthy foods such as breads, grains, and cereals are expected to stagnate in sales as they

reach market maturity, while niche markets such as olive oil are expected to grow, especially as increasing popularity leads to the entry of additional competitors which may push down prices. The growing popularity of higher-end products such as olive oil allows for the growing trend from lower priced and lower added-value products to higher-end products, as a greater number of competitors causes prices to be more affordable to a larger demographic.

According to market researcher Kay Tamillo of Euromonitor International, whoever can lower the prices of healthy foods the most will reap the greatest potential of the market. The economic crisis halted acquisitions, mergers, and investments as companies focused inward on maintaining sales. As the market stabilizes, however, it is expected that mergers will resume, creating economies of scale that can support more aggressive price discounting strategies. This is likely to hurt smaller companies and drive the market to be concentrated among leaders to an even greater extent than it already is.

### ***Consumer Profile and Availability***

The healthy food market is still a niche market in Mexico and is often limited to higher-income consumers, especially sales of BFY packaged food products. Not only are lower-income consumers more limited by their ability to purchase higher-priced healthier products, but they are also less educated about the benefits of healthy food and the long-term costs of being overweight or obese. Due to low-income consumers' inability to purchase more costly healthier foods, rates of overweight and obesity are most prevalent among lower income consumers, who are also less likely to understand complicated nutritional food labels.

60 percent of the Mexican population is trying to lose weight, and of these 60 percent, 70 percent do so primarily through a change in diet. However, they are limited by cost, understanding of labeling, and skepticism of the truth of some labels' claims. While well established markets such as grains and sugar-free gum are widely available in virtually every grocery store and vending machine, niche markets such as olive oils and naturally healthy sweet and savory snacks are available only at specialty stores. While smaller companies in the market struggle to compete in already established industries dominated by companies with higher production capacity and economies of scale, there is room to expand the distribution and availability of niche products currently absent in the marketplace.

### ***Competitive Landscape***

The BFY packaged food sector is dominated by Cadbury Adams and Danone de México, who will likely continue to shape the market in the future. Danone de México was able to recover from the financial crisis with strong advertising and competitive pricing, and their ability to widely distribute their product. It is likely that this sector will continue to converge as mergers and acquisitions increase, to pull down the prices of BFY packaged food to a more competitive level.

Naturally healthy packaged foods, however, dominated by companies such as Panificación Bimbo and Kellogg de México, have room for market penetration within certain niches which have yet to emerge in Mexico. The brand recognition and long standing market presence of this sector's dominant players, as well as the ability to acquire consistent research on market dynamics, make it likely that well established companies will remain so. Since this market is dominated primarily by two companies, Euromonitor International suggests that future success will be determined by the innovation and investment of new products, as well as the specialization within certain niches not yet explored within the market. The growing presence of diseases such as celiac presents an example of a niche not yet

dominated by any one particular player.

Table 1. Mexican Health and Wellness Type Foods Retail Sales –U.S. \$ Millions

	2005	2006	2007	2008	2009	2010
Better for You	2,406.41	3,016.69	3,533.6	3,805.12	4,167.07	4,662.77
Food Intolerance	60.97	105.56	200.96	272.82	416.73	611.39
Fortified/Functional	7,591.77	8,490.87	9,573.97	10,607.63	11,010.02	11,741.22
Naturally Healthy	2,912.36	3,255.81	3,271.17	4,164.35	4,800.35	5,311.10
Organic	0.81	62.10	73.7	103.1	130.24	163.98
Health and Wellness	12,887.25	14,850.58	17,037.5	18,884.2	20,433.47	22,410.54

Source: Euromonitor International

### Market Entry into the Healthy Food Market

U.S. suppliers are encouraged to look for multiple local distributors in Mexico. Healthy processed products have various outlets for distribution in Mexico. Supermarkets/Wholesale markets are the most popular distribution model for health and wellness food and beverages. There are several retail chains in the country with Wal-Mart (Grupo Walmex) dominating the retail sector, followed by Soriana, Comercial Mexicana, and Chedraui. Distribution channels are also highly determined by whether the product holds a premium over standard brands. Standard brands of most processed foods products are primarily sold through supermarkets. Private label brands are also distributed through both supermarkets as well as club wholesale stores. However, premium brands are often exclusively sold out of upscale food stores, such as City Market, Chedraui Select, Palacio de Hierro, Liverpool, or smaller independent specialty stores (e.g. The Green Corner, Super Mayoreo Naturista, Amsterdam Markt)

Imported processed foods to be sold in the retail sector including BFY packaged foods, must be labeled according to the Mexican government specifications in NOM-051 general labeling specifications for pre-packaged food and non-alcoholic beverages – commercial and food safety information.

At a minimum, a label must be affixed to each package of the exported product prior to entering to Mexico. The label must include the following data and must be in Spanish.

- Commercial/brand name
- Producer's name and address
- Exporter's name and address
- Country of origin (i.e., Product from de EE.UU.)
- Importer's name, address and RFC number (taxation number)
- Product description in Spanish
- Product description in English
- Preparation and handling instructions
- Net weight in metric units
- Date of expiration
- Ingredients
- Nutritional Information

Other documents that are required to enter into Mexico are the customs entry document (pedimento de importacion), the commercial invoice, and the NAFTA Certificate of Origin.

Also, under NAFTA imports of healthy foods considered as food/dietary supplements require a special import permit. A Sanitary Previous Import Permit is required, along with a Sanitary Certificate, and a questionnaire on Good Sanitary Practices. This Secretariat of Health requirement is administered by COFEPRIS, the Federal Commission for Health Risk Protection. To obtain this permit, the importer has to present a chemical analysis of the product, specifying each product contained in the formula and the quantity. Also, two product labels as presented in the country of origin must also be presented. The product is then analyzed and defined as a dietary supplement or a medication.

It is expected that with Mexico's current obesity rates, the healthy foods market will keep growing and offer good opportunities for U.S. exporters, as domestic production will increase and expand into new products. Domestic production will remain the primary competitor for imported U.S. products.

## **Opportunities for Marketing Events**

### **Best Prospects**

Producers within the healthy food market must focus on affordability, accessibility, marketing, and the simplicity of their products. In the dominant established sectors, larger companies will continue to invest in and out compete smaller producers to achieve more competitive prices. To differentiate themselves from larger competitors, smaller companies wishing to penetrate the healthy food market must focus on the innovation and investment in each new product, and work on taking advantage of niche markets.

The health food market consists of products modified in its composition such as low-calorie, low-fat, low-carbohydrate, high-fiber, high-protein, vitamin fortified, and reduced in sodium. Some of the best prospects for this market are:

- Power bars, including simple breakfast bars, snack/lunch bars, cereal bars;
- Diet/fiber supplements and meal replacements;
- Gluten-free products;
- Soy-based products;
- Natural or organic products are also perceived as healthier;
- Whole grain bakery products, breakfast cereals, nuts, trail mixes.

Also we could include in this category general specialty grocery products, including low fat, low carb, low calorie, sugar-free (without artificial sweeteners) such as mayonnaise, salad dressings, sauces, jams, jellies, soups, canned meats, cookies and crackers, and sodas and functional beverages.

One niche market, olive oil, is currently a high-end product which is generally only accessible to high-income consumers. In order to lower prices down to a more competitive level, these niche markets must evaluate their alliances with other competitors to increase market penetration. Fabián Ghirardelly of Kantar World Panel Mexico says that reduced fat milk is a market with great future potential, as its size and scale as well as cheap production make it a product which could soon penetrate the market at competitive price levels.

The successful marketing and labeling of emerging products is critical in the developing health food market. The Nielsen online study shows that only 51 percent of Mexicans report understanding nutritional labels. (It is important to note that this is an online study, representing the demographic in Mexico with internet access that already is likely to have higher levels of education). With 60 percent of the Mexican population trying to lose weight and 70 percent of them doing so by changing their diet, consumers are anxious to get information that is easier to understand. The Vice President of Global Consumer Insights for Nielsen, James Russo, says that development of more user-friendly labels is essential if a new product wishes to successfully enter the market or expand sales of an existing product.

Labels must also be more transparent. An analysis of 10 different nutritional content categories showed that more than two thirds of respondents believe that nutritional claims on labels such as “low fat” and “100% natural” are rarely or never true. Not only do these labels need to be simplified to appeal to the wide audience trying healthier products, they also must be quantified with easy to understand facts.

### **Related Tradeshow**

#### **Expo ANTAD –National Retail Industry Association Tradeshow**

March 12-14, 2014

Convention Center – Expo Guadalajara

Guadalajara, Jalisco

<http://www.expoantad.net/expo2014/>

#### **Expo World Summit Diabetes, Obesity and Nutrition**

August 30-Sept 1<sup>st</sup>, 2013

World Trade Center

Mexico City, Mexico

<http://www.expocumbremundial.com.mx/>

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**Sources:**

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